



Comments by CUTS International on the Terms of Reference (TOR) of Fifteenth Finance Commission (15th FC)

Specific Comments:

1) With regards to Para 3 sub point (v):

Since the Goods and Services Tax (GST) is a destination based levy and hence by implication it means that eventually the less productive states are bound to gain from GST, the 15th FC may evaluate if this is going to have implication on the devolution to weaker states. This may obviate the need to provide revenue deficit grants. Hence, in the examination of the need for revenue deficit grant, a consideration may be given to this particular aspect as well. Accordingly, a revision may be carried out in Para 3 sub point (v) to include impact of GST on revenue deficit grants for weaker states as well.

2) Revenue Deficit Grants:

The basic principle for extending revenue deficit grant is that every citizen subjected to same tax regime must have access to the same level of public service irrespective of their residence. Since there are large differences in level of services across states, there is a need to gradually achieve this target over five-year award period; and that states should be given a minimum amount of average spending money below which no state could survive. The TOR in Para 2 already states that the Commission may also examine whether revenue deficit grant be provided at all. In addition to this, such examination will be based on diverse set of assessments done by the government as well as independent bodies.

Controversy regarding 2011 Census

In recent times a controversy has arisen with regards to the use of 2011 census and its alleged negative impact on some states which have not only reduced the rate of population growth over decades but also bettered the per capita income and improved outcomes on key socio economic indicators. Therefore, while the logic to use 2011 census has due merit, the weight assigned to population should be such that it takes into account the performance of states on key socio economic aspects as well as the fact that moving up to a higher state of development may be more difficult than to show improvement at lower rungs. This may require a greater in-depth analysis which ultimately could have a bearing on the performance based incentives contained in Para 4 and the same may need to be revised and revisited to reflect a balanced approach between less and more developed states.

Further, performance based incentives should also include steps taken for capacity building to enable states to enforce better collection of taxes and other forms of generating revenue that

will make a state independent in terms of spending. This will be in the spirit of competitive federalism.

3) Coordination between Finance Commission devolution and Social programmes

There is a need to allow for concurrent planning for social programmes and finance processes such that the outcomes of social programs and standards of services are built into the Finance Commission recommendations. Planned programmes need to be mapped with fiscal requirement to achieve them, which then can form a part of Finance Commission devolution. Finance Commission TOR may reflect an endeavour to work towards such a framework. A related point will be to also give due regard to the recommendation of Inter-State Council Secretariat that **Finance Commission's recommendations on fiscal transfers need to consider more explicitly the factors that determine Human Development Index (HDI)**¹.

4) Focus on the first charge of the Commission

Lastly, it must be remembered that the as per the Constitution of India – the first charge of FC is the devolution rather than providing for the expenditure of Union Government and hence aspects like impact of the 14th FC recommendation and imperatives of National Development Programmes {**Para 3 (iv)**} should not be a part of the TOR. Such aspects could be brought to the consideration of the FC through representation by the central government at the stage when the FC seeks comments from stakeholders.

¹ <http://interstatecouncil.nic.in/wp-content/uploads/2016/icf/Conclusions.pdf>